



January 22, 2009

Mr. George Galaza, Chief of Corrections  
Delano Community Correctional Facility  
P.O. Box 1060  
Delano, CA 93216

Dear Mr. Galaza:

**Final Audit Report—Delano Community Correctional Facility, Contract R89.1591.101**

The Department of Finance, Office of State Audits and Evaluations, has completed its fiscal compliance audit of the Delano Community Correctional Facility (Facility) for the period July 1, 2004 through June 30, 2008.

The enclosed report is for your review and response. The Facility's response to the report findings are incorporated into this final report. Please submit an updated corrective action plan to Finance and the California Department of Corrections and Rehabilitation, Community Correctional Facilities Administration, within 30 days of receipt of this report.

We appreciate the assistance and cooperation of the Facility. If you have any questions regarding this report, please contact Richard R. Sierra, Manager, or Osman Sanneh, Supervisor, at (916) 322-2985.

Sincerely,

***Original signed by:***

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Oleta Portello, Facility Manager, Delano Community Correctional Facility  
Mr. Bernard Simon, Finance Director, City of Delano  
Mr. Kevin R. Chappell, Chief, Community Correctional Facilities Administration, California Department of Corrections and Rehabilitation  
Mr. Terry Dickinson, Correctional Administrator, Community Correctional Facilities Administration, California Department of Corrections and Rehabilitation  
Ms. Flordeliza Ligaya, Staff Services Manager I, Community Correctional Facilities Administration, California Department of Corrections and Rehabilitation  
Mr. Alan Ilusorio, Program Analyst, Community Correctional Facilities Administration, California Department of Corrections and Rehabilitation  
Mr. Robert Logan, Staff Services Manager I, Special Projects, Community Correctional Facilities Administration, California Department of Corrections and Rehabilitation

# A FISCAL COMPLIANCE AUDIT

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Delano Community Correctional Facility  
Contract R89.1591.101  
For the Period July 1, 2004  
through June 30, 2008

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

**MEMBERS OF THE AUDIT TEAM:**

Richard R. Sierra, CPA, CGFM  
Manager

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**Staff**

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The final report will be available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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## EXECUTIVE SUMMARY

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The California Department of Corrections and Rehabilitation (Corrections) contracted with the City of Delano (City) for operation of the Delano Community Correctional Facility (Facility). The City is responsible for providing inmate housing, sustenance, and coordinating inmate activities within the Facility. Under the direction of on-site Corrections staff, the City also assists with inmate custody and Facility security. The Facility is located in Delano, California, and is designed to accommodate an average daily population of 380 male inmates.

Corrections requested the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a fiscal compliance audit of contract R89.1591.101.

### Review Results:

- **Extended Vacancy of Facility's Finance Manager Position Impairs Fiscal Control and Accountability:** The position has remained vacant since May 2006, contributing to a lack of fiscal direction and numerous, significant control deficiencies.
- **Internal Control Weaknesses—City Operations:** There were weaknesses in asset safeguarding, separation of duties, and accounting procedures impacting Facility funds.

Several of these findings were also reported in our October 2004 audit report. For further details, refer to the *Findings and Recommendations* section of this report.

# BACKGROUND, SCOPE, AND METHODOLOGY

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## BACKGROUND

The California Department of Corrections and Rehabilitation (Corrections) administers the Community Correctional Facility Program (Program). The Program is intended to ease overcrowding in state institutions, reduce the need for building new state correctional institutions, and provide a financial benefit for the local community in which the facility is located. The Community Correctional Facilities Administration within Corrections is responsible for the on-site administration of the Program.

Penal Code Section 6256 authorizes Corrections to enter into contracts with appropriate public and private entities to provide housing, sustenance, supervision, inmate work incentive programs, education, vocational training, pre-release program assessment planning, and other services, as stipulated. Of the six contracts awarded to public entities under this Program, one was awarded to the City of Delano (City) for operation of the Delano Community Correctional Facility (Facility).

As stipulated by contract R89.1591.101, the Facility's funding is a combination of flat rate expenditure reimbursement and per diem funding. The combined funding was \$7,512,585 and \$9,426,335 in fiscal years 2005-06 and 2006-07, respectively. Contract funds are used for the expenditure categories as shown in Appendix A.

The Facility is required to account for funds separately. Below is a description of each fund held by the Facility:

- *Inmate Welfare Fund*—A fund operated for the benefit and welfare of inmates who are under the jurisdiction of Corrections.
- *Inmate Trust Fund*—A fund that accounts for moneys belonging to inmates through work performed or money received from family or friends.
- *Telephone Revenue Fund*—Special program funds received for inmate telephone services designed for specific activities, as outlined in the contract.
- *Debt Service Fund*—Accounts for the debt service on outstanding bonds.
- *Equipment Replacement Fund*—Contract funds allocated for the replacement of Facility equipment.
- *Construction Fund* - Bond funds in excess of construction costs to be used for the Facility's construction.

## SCOPE AND OBJECTIVES

Under an interagency agreement with Corrections, the Department of Finance, Office of State Audits and Evaluations (Finance), performed a fiscal compliance audit of contract R89.1591.101 between the City and Corrections. The audit objectives were to:

- Determine whether the Facility's cost reports accurately represent revenue received and expenditures incurred for the period July 1, 2005 through June 30, 2007.
- Determine whether the Facility's internal control allows for the accurate and timely development of cost reporting data and adequate safeguarding of state assets.
- Determine the Facility's compliance with the contract's fiscal and reporting requirements.
- Determine if the Facility had implemented corrective action for findings issued in Finance's previous audit report dated October 1, 2004.
- Review the activities and contract compliance of the Inmate Welfare Fund, Inmate Trust Fund, Inmate Telephone Revenue Fund, Debt Service Fund, Construction Fund, and Equipment Replacement Fund for the period July 1, 2004 through June 30, 2008.

## METHODOLOGY

In order to determine whether the Facility's cost reports are accurate, information reported on the cost reports was traced to the Facility's general ledger and subsidiary ledgers. Revenue and expenditures reported in the Facility's general ledger were assessed for reasonableness. Additionally, a sample of receipts and disbursements was selected and traced to supporting documentation.

To ensure the Facility maintains an effective internal control system, an understanding of the Facility's internal control was obtained through inquiries and observations of Facility staff. A selected sample of receipts and disbursements was traced to supporting documentation to determine the Facility's compliance with the contract's fiscal and reporting requirements. A review of the contract agreement, Corrections' *Department Operations Manual*, and the *Financial Management Handbook for Public Community Correctional Facilities* dated July 1989 (Handbook) was performed to determine that selected items met eligibility requirements.

To determine if the Facility implemented corrective action for the prior audit findings, we reviewed the prior audit report dated October 1, 2004, interviewed Facility staff, and reviewed current processes and documentation.

The funds (Inmate Welfare Fund, Inmate Telephone Revenue Fund, Debt Service Fund, Equipment Replacement Fund, Construction Fund, and Inmate Trust Fund) were reviewed for completeness and propriety. Our review included the following:

- General internal control assessment
- Review of the Facility's general ledger and/or subsidiary ledgers
- Identification of fund transfers
- Determination of whether transfers met eligibility requirements
- Assessment of fund disbursements

- Investigations of unusual transactions
- Verification that the Facility maintained the funds in accordance with contract requirements

Because the City performs certain accounting services for the Facility, the scope of our work included a review of relevant City controls and procedures.

Findings are presented in the *Findings and Recommendations* section of this report. Immaterial, non-reportable issues and observations were discussed with Facility representatives. The appendices include schedules of financial related information that is presented for additional information and analysis.

Recommendations were developed based on contract requirements and guidelines set forth in the Handbook. Fieldwork was conducted during July 2008.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide an independent assessment of compliance with contract R89.1591.101, to provide information to improve accountability, and to facilitate decision-making by parties with responsibility to oversee or initiate corrective action. Because our objective was not to perform a financial statement audit, we do not express an opinion on the financial information presented in the Appendices. Furthermore, our evaluation of the Facility's internal control and tests of compliance was not to provide assurance on the Facility's internal control as a whole, or to provide an opinion on compliance. Accordingly, we do not provide such assurance or express such an opinion.

This report is intended solely for the information and use of Facility, City, and Corrections management, and is not intended to be and should not be used by anyone other than the specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

November 18, 2008



## FINDINGS AND RECOMMENDATIONS

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### FINDING 1

#### **Extended Vacancy of Facility's Finance Manager Position Impairs Fiscal Control and Accountability**

##### Conditions:

The City of Delano (City) has not filled the Facility's Finance Manager position which became vacant in May 2006. In the interim, an Accountant I, clerical personnel, and other administrative staff perform various accounting and related tasks without appropriate supervision and direction. This lack of oversight has contributed to numerous and significant control and accountability weaknesses as described below:

- A. *Incomplete quarterly and annual Statements of Program Income and Expenditures:* The Facility's Statements contained the following omissions and errors:
- Annual facility lease expenditures of \$1,263,917 (fiscal year 2005-06) and \$1,261,306 (2006-07) and the corresponding reimbursements from the California Department of Corrections and Rehabilitation (Corrections) were omitted.
  - Per diem revenue was overstated by \$105,819 in 2006-07 due to the submission of a corrected June 2007 invoice without reversal of the original amount.
- B. *Inappropriate and unauthorized distribution of Telephone Revenue Funds:* In September 2007, the Facility separated the Inmate Telephone Revenue Fund (ITRF) from the bank account operated jointly with the Inmate Welfare Fund (IWF). Because the IWF typically operates at a deficit, it claims no share of the \$798,892 balance in the joint bank account. The Facility acknowledges that the entire balance of the joint bank account belongs to the ITRF.
- However, to effect the separation, the City established a new ITRF bank account with only \$500,000 and inappropriately left the remaining \$298,892 in the old bank account (now designated as the IWF bank account). In effect, the City and the Facility misallocated approximately 37 percent of ITRF moneys to the IWF.
- C. *Incomplete bank reconciliations:* In reconciling the Inmate Trust Fund (ITF), IWF, and ITRF bank accounts, the Facility did not investigate and correct reconciling items/discrepancies between the bank statements and general ledger balances. At June 30, 2008 the IWF bank balance exceeded the general ledger by \$386,747 and the ITRF general ledger

exceeded the bank balance by \$207,640. At May 31, 2008 the ITF bank balance exceeded the general ledger by \$312,503. The Facility was unable to explain or reconcile the differences. This weakness was also reported in our October 2004 audit report.

- D. *Inadequate separation of duties over Inmate Welfare Fund, Inmate Trust Fund, and Inmate Telephone Revenue Fund receipts:* Both the Accounting Assistant and back-up employee (Office Assistant II) perform the following incompatible duties: prepare cash receipts forms, prepare bank deposits, review and compare prelisting and collection reports to deposits, deliver deposits to bank, and maintain cash receipts register. Furthermore, the Accounting Assistant and the Facility Manager (authorized check signer) both have access to the IWF, ITF, and ITRF blank check stock. Physical handling of checks/cash should be separated from authorization and recordkeeping functions.
- E. *Inadequate separation of canteen duties:* The Canteen Officer purchases, receives, and sells goods, and maintains the merchandise inventory records, thereby controlling the entire inventory cycle. At a minimum, physical merchandise handling should be segregated from inventory and recordkeeping functions. This weakness was also reported in our October 2004 audit report.
- F. *Lack of physical canteen inventory:* The Facility does not perform periodic physical inventory counts to verify inventory balances for financial reporting purposes and adjustment of the perpetual inventory records.
- G. *IWF canteen is not self-sustaining:* The IWF records indicate that the canteen has not recovered its cost of merchandise sold in fiscal years 2004-05, 2005-06, and 2007-08. For example, in 2007-08, the cost of merchandise sold exceeded sales revenue by \$20,000. Although the Facility indicated that its mark-up on canteen merchandise for resale was 30 percent, its operating results did not reflect this mark-up.

However, due to the lack of an annual physical inventory and mathematical errors found in the inventory records and general ledger, the facility may be unable to readily assess its true cost of sales. This issue was also reported in our October 2004 audit report.

- H. *Lack of cash collection controls over the Facility's car wash operation:* Several staff collect cash and maintain receipt booklets at their desks; however, there is no independent review of the receipt booklets or accounting for the sequential number of issued receipts. Consequently, there is no assurance that all car wash revenues are received and recorded.
- I. *The Facility does not prepare Statements of IWF Operations for display at the inmate library and canteen.*

J. *Miscellaneous Accounting Errors and Omissions:*

- The ITF was overstated by \$10,185 and \$17,991 in 2005-06 and 2006-07, respectively. The errors included duplicate and unrecorded inmate pay.
- As of May 31, 2008, there were 153 ITF checks totaling \$4,994 that were outstanding for more than six months. There was no evidence that the checks were cancelled and remitted to Corrections.

Erroneous and incomplete financial reports impair Facility and Corrections management from effectively monitoring fiscal performance and accurately budgeting future costs. Inaccurate financial reporting was also a finding in our October 2004 audit report.

Criteria:

Section III.A of the *Financial Management Handbook for Public Community Correctional Facilities* dated July 1989 (Handbook) requires that the contractor's accounting system must ensure that the accounting records will provide information necessary to identify receipt and expenditure of all project funds. This information must be reported on Department of Corrections cost reporting forms.

Section II, Part H requires that adequate internal controls be implemented to ensure proper safeguarding for state, inmate, and Facility assets.

Section III, Part A states that the accounting system maintained by the contractor must be in conformance with generally accepted accounting principles to ensure that the accounting records will provide information necessary to identify the receipt and expenditure of all project funds.

Section II, Part H assigns responsibility to the Facility's Project Director and Fiscal Officer to implement adequate internal control procedures.

Section III, Part E, and Section IV, Part E require the Facility to complete monthly reconciliations of the accounts to ensure current and accurate accounting records.

Section III, Part F states all entries to the IWF records should be supported by source documentation.

Generally accepted business practices require that checks outstanding for more than six months be voided. Under current policy, the voided amounts are to be remitted to Corrections for disposition.

Section 23010.4 of the California Department of Corrections and Rehabilitation's Operations Manual (Manual) requires each institution/facility to budget IWF expenditures so that expenditures do not exceed budget allocations and revenues from IWF activities unless approved by the Central Office IWF Officer.

Section 23010.8 of the Manual states that institutions and facilities shall post a copy of the latest IWF Statement of Operations at each inmate canteen and library quarterly.

- Recommendations:
- A. Immediately fill the vacant Facility Manager position and ensure that accounting staff are trained and that their activities are properly supervised.
  - B. Accurately report all Facility revenue and expenditures on the quarterly and annual Statements of Program Income and Expenditures. Revise and resubmit corrected statements as directed by Corrections.
  - C. Transfer the remaining \$298,892 of ITRF moneys from the IWF bank account to the ITRF bank account.
  - D. Ensure that bank reconciliations are timely, accurate, complete, and approved. Timely investigate and resolve any discrepancies or reconciling items.
  - E. Reassign incompatible cash receipts and canteen duties to other employees.
  - F. Conduct periodic and annual physical inventories of canteen merchandise and reconcile the count with the accounting records. Adjust the records as needed.
  - G. Ensure the IWF operates profitably. In order to determine an accurate cost of sales, review and correct errors in the inventory records and general ledger accounts. Adjust sales prices if necessary.
  - H. Account for all car wash receipt booklets and sequence of issued receipts. Assign an employee not involved in the collections process to reconcile collections with the receipt booklets weekly.
  - I. Prepare IWF Statements of Operations and post copies at the canteen and inmate library quarterly.
  - J. Establish procedures for the early detection and correction of errors in the accounting records.
  - K. Cancel ITF checks outstanding more than six months and remit the amounts to Corrections.

## **FINDING 2**

### **Internal Control Weaknesses—City Operations**

Conditions: The City manages the Facility's contract and accounts for its financial resources within the City's accounting system. As such, our audit procedures extended to a review of the relevant control processes and

procedures within that system. Based on our review, we identified the following internal control weaknesses in the City's operations:

- A. Access to blank checks, cash collections, and unmailed checks stored in the City's safe and/or vault is insufficiently restricted and accessible to numerous employees, including the Finance Director, Assistant Finance Director, Account Technician, Payroll Personnel, three Accounting Assistants, and two temporary employees. Access to these assets is incompatible for employees with authorization, recordkeeping, or reconciliation functions, and exposes the assets to the risk of theft, loss, or misappropriation. This finding was previously reported in our October 2004 audit report.

Further, the above-mentioned staff and any others at City Hall have access to the City Manager's signature stamp which was left unguarded on an office counter.

- B. The Assistant Finance Director has the following incompatible duties: access to blank checks, access to the City's Manager's signature stamp, access to the check printer, and reconciler of the City's Cash Pool account.
- C. Monthly bank reconciliations of the City Cash Pool account were not completed timely. As of July 29, 2008, the last bank reconciliation completed was for March 2008.
- D. The City's accounting for the Facility's Debt Service Fund (DSF) payments is inappropriate. Specifically, we noted instances where the City deposited the DSF payments into the City's General Cash account instead of the DSF bank account. As Facility bond payments become due, the City makes the payments from its general cash account and obtains reimbursement from the DSF account. Consequently, the DSF fluctuates between large negative and positive balances in the City's pooled account, and does not provide an accurate status of the fund's condition.

Although we did not identify instances of inappropriate use of DSF monies, the commingling of these funds with City funds creates the risk of errors and cash flow shortages in servicing the Facility's bond requirements. This issue was also reported in our October 2004 audit report.

- E. The City's overhead cost allocation to the Facility was overstated by \$23,885 in 2005-06 and \$210,946 in 2006-07. The City allocated budgeted instead of actual overhead. These overstatements were claimed on the annual Statements of Program Income and Expenditures, misrepresenting the actual costs to run the Facility. Cost allocation errors were also noted in our October 2004 audit report.

Criteria: Section II, Part H of the Handbook requires that adequate internal controls be implemented to ensure proper safeguarding for state, inmate, and Facility assets.

Section 10, page 18 defines administrative overhead costs as costs incurred for the services provided to the contracted program by the administrative branch of the organization. Such services rendered must be measurable and applicable to the contracted facility program.

- Recommendations:
- A. Restrict access to the vault and safe to only those employees requiring such access in the performance of their duties, consistent with proper separation of duties. Change the lock as necessary and safeguard the keys.
  - B. Safeguard the City Manager's signature stamp and permit access to only authorized employees whose duties are compatible with such access.
  - C. Modify the Assistant Finance Director's duties so that the position does not reconcile bank accounts or have access to blank checks.
  - D. Deposit all DSF payments directly into the DSF bank account.
  - E. Ensure future statements reflect the City's actual overhead costs attributable to the Facility. Revise and resubmit corrected statements as directed by Corrections.

The number and magnitude of the above weaknesses (several of which remain uncorrected from previous audits) raise questions about the City's and Facility's ability to effectively oversee and control fiscal operations. Significant improvement is needed in a number of areas. Many of these weaknesses stem from the lack of fiscal direction and supervision, making the prompt hiring of a Facility Finance Manager imperative.

# APPENDIX A

## SCHEDULE OF REPORTED AND AUDITED REVENUE AND EXPENDITURES

**Delano Community Correctional Facility  
Contract R89.1591.101  
Schedule of Reported and Audited Revenue and Expenditures  
For the Period July 1, 2005 to June 30, 2006**

<u>Category</u>	<u>Reported</u>	<u>Questioned</u>	<u>Adjustment</u>	<u>Audited</u>
Revenue <sup>(1)</sup>	\$6,118,306	\$ 0	\$1,263,917	\$7,382,223
Expenditures:				
Personnel & Benefits	4,422,651	0	0	4,422,651
Training	9,338	0	0	9,338
Training-Sert	3,780	0	0	3,780
Medical Services	86,724	0	0	86,724
Transportation	10,125	0	0	10,125
Clothing	26,995	0	0	26,995
Education/Vocational	10,965	0	0	10,965
Food	415,674	0	0	415,674
Consultant Services	38,985	0	0	38,985
Insurance	91,958	0	0	91,958
Overhead <sup>(2)</sup>	170,408	0	(23,885)	146,523
General Operating	496,026	0	0	496,026
Depreciation	36,702	0	0	36,702
Facility Lease <sup>(1) (3)</sup>	<u>0</u>	<u>0</u>	<u>1,270,810</u>	<u>1,270,810</u>
Total Expenditures	<u>\$5,820,331</u>	<u>\$ 0</u>	<u>\$1,246,925</u>	<u>\$7,067,256</u>
Gain	\$ 297,975			\$ 314,967
Service Fee	\$ 368,530			\$ 368,530
Contingency Fees	\$ 61,280			\$ 61,280

(1) See Finding 1.A for an explanation of adjustment.

(2) See Finding 3.E for an explanation of adjustment.

(3) Adjustment includes \$6,893 in administration and other fees.

# APPENDIX A (Continued)

## SCHEDULE OF REPORTED AND AUDITED REVENUE AND EXPENDITURES

**Delano Community Correctional Facility  
Contract R89.1591.101  
Schedule of Reported and Audited Revenue and Expenditures  
For the Period July 1, 2006 to June 30, 2007**

<u>Category</u>	<u>Reported</u>	<u>Questioned</u>	<u>Adjustment</u>	<u>Audited</u>
Revenue <sup>(1)</sup>	\$6,756,926	\$ 0	\$1,155,487	\$7,912,413
Expenditures:				
Personnel & Benefits	4,328,159	0	0	4,328,159
Training	7,278	0	0	7,278
Medical Services	97,344	0	0	97,344
Transportation	13,771	0	0	13,771
Clothing	49,036	0	0	49,036
Education/Vocational	7,568	0	0	7,568
Food	426,202	0	0	426,202
Consultant Services	56,203	0	0	56,203
Insurance	(15,908)	0	0	(15,908)
Overhead <sup>(2)</sup>	264,777	0	(210,946)	53,831
General Operating	569,696	0	0	569,696
Depreciation	40,039	0	0	40,039
Facility Lease <sup>(1) (3)</sup>	0	0	1,271,253	1,271,253
Total Expenditures	<u>\$5,844,165</u>	<u>\$ 0</u>	<u>\$1,060,307</u>	<u>\$6,904,472</u>
Gain	\$ 912,761			\$1,007,941
Service Fee	\$ 368,530			\$ 368,530
Contingency Fees	\$ 61,280			\$ 61,280

(1) See Finding 1.A for an explanation of adjustment.

(2) See Finding 3.E for an explanation of adjustment.

(3) Adjustment includes \$9,947 in administration fees.



# APPENDIX B

## INMATE WELFARE FUND

### BALANCES

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**Delano Community Correctional Facility  
Contract R89.1591.101  
Inmate Welfare Fund Balances  
For the Period July 1, 2004 to June 30, 2008**

	<u>July 1, 2004 to June 30, 2005</u>	<u>July 1, 2005 to June 30, 2006</u>	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>
Beginning Balance	\$ 34,173	\$ 505	\$34,549	\$ 33,023
Revenue:				
Deposits	263,450	297,617	260,601	243,792
Transfers from ITRF	<u>75,243</u>	<u>122,921</u>	<u>152,674</u>	<u>245,510</u>
Total Revenue	338,693	420,538	413,275	489,302
Disbursements	<u>372,361</u>	<u>386,494</u>	<u>414,801</u>	<u>557,060</u>
Ending Balance	<u>\$ 505</u>	<u>\$ 34,549</u>	<u>\$ 33,023</u>	<u>\$(34,735)</u>

APPENDIX B (Continued)

INMATE TELEPHONE REVENUE FUND

BALANCES

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**Delano Community Correctional Facility  
Contract R89.1591.101  
Inmate Telephone Revenue Fund Balances  
For the Period July 1, 2004 to June 30, 2008**

	<u>July 1, 2004 to June 30, 2005</u>	<u>July 1, 2005 to June 30, 2006</u>	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>
Beginning Balance	\$467,442	\$526,880	\$705,192	\$ 722,407
Deposits	134,681	301,233	169,889	272,418
Disbursements to IWF	<u>75,243</u>	<u>122,921</u>	<u>152,674</u>	<u>245,510</u>
Ending Balance	<u>\$526,880</u>	<u>\$705,192</u>	<u>\$722,407</u>	<u>\$ 749,315</u>
Certificates of Deposit				<u>298,000</u>
Total Balance				<u>\$1,047,315</u>

# APPENDIX B (Continued)

## DEBT SERVICE FUND

### BALANCES

**Delano Community Correctional Facility  
Contract R89.1591.101  
Debt Service Fund Balances  
For the Period July 1, 2004 through June 30, 2008**

	<b><u>July 1, 2004 to June 30, 2005</u></b>	<b><u>July 1, 2005 to June 30, 2006</u></b>	<b><u>July 1, 2006 to June 30, 2007</u></b>	<b><u>July 1, 2007 to June 30, 2008</u></b>
Beginning Balance	\$1,097,851	\$1,165,172	\$1,255,186	\$1,347,259
Revenue:				
Facility Lease Reimbursements	1,242,911	1,263,917	1,261,306	1,160,809
Amortization of Bond Premium	50,551	53,033	55,625	0
Interest Income	<u>44,431</u>	<u>43,874</u>	<u>46,394</u>	<u>6,829</u>
Total Revenue	1,337,893	1,360,824	1,363,326	1,167,638
Disbursements:				
Debt Service-Principal	930,000	980,000	1,025,000	1,080,000
Debt Service-Interest	329,419	284,081	236,306	149,387
Administration Fees	<u>11,153</u>	<u>6,729</u>	<u>9,947</u>	<u>17,949</u>
Total Disbursements	<u>1,270,572</u>	<u>1,270,810</u>	<u>1,271,253</u>	<u>1,247,336</u>
Ending Balance <sup>(1)</sup>	<u>\$1,165,172</u>	<u>\$1,255,186</u>	<u>\$1,347,259</u>	<u>\$1,267,561</u>

(1) We have estimated that by March 31, 2009, contractual payments from Corrections will cause the Debt Service Fund (DSF) to reach approximately \$2,528,597, enough to cover the remaining \$2,527,400 of principal and interest owed.

APPENDIX B (Continued)  
EQUIPMENT REPLACEMENT FUND  
BALANCES

**Delano Community Correctional Facility  
Contract R89.1591.101  
Equipment Replacement Fund Balances  
For the Period July 1, 2004 through June 30, 2008**

	<u>July 1, 2004 to June 30, 2005</u>	<u>July 1, 2005 to June 30, 2006</u>	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>
Beginning Balance	\$309,205	\$347,209	\$368,898	\$279,083
Revenue:				
Deposits	36,718	42,804	40,039	25,730
Interest Income	<u>7,713</u>	<u>11,482</u>	<u>14,151</u>	<u>8,189</u>
Total Revenue	44,431	54,286	54,190	33,919
Disbursements	<u>6,427</u>	<u>32,597</u>	<u>144,005</u>	<u>50,493</u>
Ending Balance	<u>\$347,209</u>	<u>\$368,898</u>	<u>\$279,083</u>	<u>\$262,509</u>

APPENDIX B (Continued)  
CONSTRUCTION FUND  
BALANCES

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**Delano Community Correctional Facility  
Contract R89.1591.101  
Construction Fund Balances  
For the Period July 1, 2004 through June 30, 2008**

	<u>July 1, 2004 to June 30, 2005</u>	<u>July 1, 2005 to June 30, 2006</u>	<u>July 1, 2006 to June 30, 2007</u>	<u>July 1, 2007 to June 30, 2008</u>
Beginning Balance	\$476,872	\$471,246	\$446,836	\$471,549
Receipts:				
Interest Income	10,966	14,077	20,445	13,335
Disbursements:				
Prior Period Adjustment	0	0	(4,268)	0
Capital Outlay Repairs	<u>16,592</u>	<u>38,487</u>	<u>0</u>	<u>394</u>
Total Disbursements	<u>16,592</u>	<u>38,487</u>	<u>(4,268)</u>	<u>394</u>
Ending Balance	<u>\$471,246</u>	<u>\$446,836</u>	<u>\$471,549</u>	<u>\$484,490</u>





## Delano Community Correctional Facility

2727 W. Industry Way • Post Office Box 1060

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Delano, California 93216

Tel.: 661-721-3270 • Fax: 661-721-7030

January 12, 2009

David Botelho, Chief  
Department of Finance  
Office of Status Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

RE: Draft Audit Report – Delano Community Correctional Facility, Contract #89.1591.101

Dear Mr. Botelho:

In reference to your correspondence dated December 8, 2008, the City of Delano, Community Correctional Facility has responded to the draft audit report completed by the Department of Finance for the period July 1, 2004 through June 30, 2008.

The response addresses the three audit findings and includes some attachments.

We would like to thank your department for the extension that was granted to us by Richard Sierra, Manager, in order to respond.

Should you have any questions, please contact me at (661) 721-3270, Ext. 101.

Yours truly,

Original signed by:

George Galaza  
Chief of Corrections  
Delano Community Correctional Facility

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Enclosures

**DELANO COMMUNITY CORRECTIONAL FACILITY**  
**Contract #R89.1591.101**

January 12, 2009

**Delano CCF Response to the Department of Finance Audit for Period 7-1-04 through 6-30-08 (November, 2008)**

**FINDING #1: Extended Vacancy of Facility's Finance Manager Position Impairs Fiscal Control and Accountability**

**City of Delano, Community Correctional Facility Response:**

The Delano Community Correctional Facility (DCCF) concurs with the Department of Finance (DOF) that the vacant position of Finance Manager needs to be filled. (Position was reclassified with title changed to Accounting/Budget Specialist effective 2-1-08) We have been aggressively recruiting for this position. Once, filled, accounting staff will be trained and supervised.

- A. DCCF was told by CCFA not to include the facility lease cost expenditure in the quarterly and annual cost reports. CCFA stated they only wanted actual revenues/expenditures recorded on the quarterly and annual reports concerning the actual costs of operating the facility and that it was for budgeting purposes. Written direction needs to be submitted to DCCF from CCFA.

The overstated per diem revenues in the amount of \$105,819 have been reversed. (Attachment A)

- B. DCCF staff has transferred \$298,892 from the Inmate Welfare Fund (IWF) bank account to the Inmate Telephone Revenue Fund (ITRF) bank account. (Attachment B)

Furthermore, based on the approved revised IWF and ITRF budget for FY 2008/09, DCCF was allowed to transfer back \$100,000 from ITRF to IWF for cash flow purposes in order that IWF would not operate in a deficit. (Attachment C)



- C. DCCF recognizes the problem of bank reconciliations of the Inmate Trust Fund (ITF), the Inmate Welfare Fund (IWF), and the Inmate Telephone Revenue Fund (ITRF). In the future, staff will ensure bank reconciliations are timely, accurate, complete and approved. Any discrepancies will be resolved in a timely manner.
- D. DCCF recognizes the need to revise its separation of duties concerning the ITF, IWF, and ITRF accounts. Due to vacant positions, staff members were assigned to perform overlapping duties. DCCF will implement an adequate duty roster defining positions and duties which will provide proper check and balance of each account.

The Facility Manager will no longer have access to ITF, IWF, or ITRF blank check stock.
- E. DCCF will assign additional staff to handle the canteen duties in order to separate said duties and maintain a check and balance of purchases, receivables and sales.
- F. DCCF will assign staff to conduct periodic and annual physical inventories on canteen items on a separate inventory log and reconcile the count with the accounting records. Discrepancies will be corrected/adjusted.
- G. DCCF is currently reviewing all canteen accounting records to determine accuracy and/or discrepancies and will adjust the records accordingly. We currently have a 30% mark-up on all items sold in canteen except for postage which is at actual cost.
- H. DCCF has assigned car wash receipt booklets to specific staff only. Each receipt is logged with the sequential number of issued receipts. Another staff member reconciles collections with the receipt booklet and log prior to posting and depositing revenues.
- I. DCCF prepares an IWF Statement of Operations with copies posted in canteen and the facility library quarterly.
- J. DCCF has completed a directive memorandum outlining procedures to reconcile ITF deposits and withdrawals for canteen purchases, canteen returns, special orders, medical co-pay, unclaimed funds, etc., on a monthly basis in order to detect and correct any errors in accounting. (Attachment D).

DCCF canceled outstanding ITF checks that were more than six months old and have remitted said funds to CDCR. This will be completed on a quarterly basis.

**FINDING #2:** Unapproved Inmate Work Assignments Outside the Facility

**City of Delano, Community Correctional Facility Response:**

This finding was also an issue in the 2004 audit conducted by the Department of Finance. The Delano Community Correctional Facility's (DCCF) Corrective Action Plan (CAP) in response to that finding noted "The condition has been corrected, citing a review by the DCCF of off-site work descriptions specified in the "Program Statement" (Exhibit G) of the contract between the City of Delano and the State of California, Department of Corrections and Rehabilitations. In addition, a copy of the CAP was provided to the California Department of Corrections and Rehabilitations (CDCR), Community Correctional Facilities Administration (CCFA) who did not dispute the response.

Furthermore, the DCCF has previously submitted the CDCR monthly Comstat Summaries which; among other report requirements, reported the number of inmates assigned to Off Reservation Work Assignment (OWRA) crews, hours, worked and economic benefits gained, etc.

The DCCF was also the recipient of a recent audit in November of 2008 by the CDCR's Audit and Compliance Division which audited 84 areas including Inmate Work Training Incentive Program (IWTIP) obligation for ORWA crews at the facility. This audit did not find any discrepancies in the areas of ORWA.

Finally, the work projects performed for the City of Delano by the DCCF ORWA crews are those specified in Exhibit G, Section 2.44 of the contract, a document agreed upon by both the City of Delano and CDCFR. As always, should there be a request for inmate labor of the DCCF by a governmental entity, outside of those specified in Exhibit G; the DCCF will first seek CDCR approval before moving forward on the request.

- Finding #2 Attachments:
- A. Excerpt from Program Statement, Exhibit G, Section 2.44.
  - B. Excerpt of DOF Audit for period 7-1-02 through 8-31-04.
  - C. Correspondence dated 3-18-02 from Allan Walton, Chief of Corrections.
  - D. Memorandum dated 5-6-02 from J. Ferguson, CDCR Captain.

**FINDING #3: Internal Control Weaknesses – City Operations**

**City of Delano, Finance Department Response:**

- A. We will be producing Accounts Payable and Payroll Checks using blank check stock and a laser printer effective the first of 2009. This will eliminate the burden of keeping a stock of blank checks in the finance department's vault. We will be keeping blank check stock which will not be a true asset until it is printed on using the City Finance Department's accounting system. The accounts payable and payroll systems are set up with limited access.**

**We have ordered a small lock box to house the City Manager's signature stamp with limited access.**
- B. The duties are segregated and the problem occurred because of short staffing.**
- C. We are recruiting currently for the Senior Accountant position. This position is in charge of the bank reconciliation.**
- D. We have changed procedures regarding paying the Facility's Debt. We will be paying the debt using the banks wiring capabilities. Payments made to the City by the State were once directly deposited into this account. This is no longer a procedure, and we have to physically take the payments to the bank and make sure that the payments are deposited into the separated bank account for the RTC Facility Account. We will check with the State to see if they can continue with the direct deposit procedures that were once in place.**
- E. The budget for FY 2005/06 and 2006/07 were prepared prior to the Cost Allocation Plan for those years being completed. We will review the actual expense postings to the cost allocation plan document and ensure that the adjustments are made in FY 2008/09**

## EVALUATION OF RESPONSE

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We have reviewed the Facility's response and acknowledge its agreement with most of the recommendations. Exhibits referenced in the response have been omitted in the interest of brevity. We acknowledge receipt and review of these exhibits.

Regarding Finding 1A (omission of facility lease expenditures from quarterly and annual cost reports), the Department of Corrections and Rehabilitation, Community Correctional Facilities Administration (CCFA), confirmed that these expenditures are required to be reported. The finding remains as reported.

Regarding Finding 2 (unapproved inmate work assignments outside the facility), the CCFA stated that because the contract amendment included staffing for two outside inmate work crews, this was deemed sufficient approval. Consequently, we deleted Finding 2 from the report and renumbered the remaining finding.